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C O N F I D E N T I A L ANKARA 002997

SIPDIS

STATE FOR E, EB/CBED, EB/ESC, EUR/SE
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E.O. 12958: DECL: 05/07/2013
TAGS: [ENRG](#) [ECON](#) [EPET](#) [AJ](#) [GG](#) [KZ](#) [TU](#)
SUBJECT: BTC CO LIFTS MATERIAL BREACH CLAIM

REF: ANKARA 2459

Classified by Econ Couns Scot Marciel, Reason 1.5 (b,d)

1. (C) Summary: BTC Co has formally informed the GOT that the government is no longer in material breach of its obligations under the BTC agreements (reftel). BTC Co CEO Michael Townshend told us he is satisfied that the GOT has resolved all outstanding operational issues, a point he reiterated with Energy Minister Guler in a joint press conference May 7. Of course we will need to observe how the BOTAS team manages in practice; in a project of this size new challenges are sure to emerge. For today, however, the news on BTC from Turkey is nothing but good. End summary.

2. (C) BTC Co Chief Executive Officer Michael Townshend told econoff May 7 that he is "as satisfied as he could be" that the GOT has resolved the outstanding operational issues raised in BTC Co's April 7 "material breach" letter (reftel). Townshend said the GOT had addressed the BOTAS management issues by appointing the new BOTAS General Manager, Mehmet Bilgic, and the new BTC Directorate Chief, Dogan Sirikci. Townshend said he had known Sirikci for 10 years and was satisfied that he could do the job. In addition, Townshend said, Energy Minister Guler had confirmed the BOTAS Board had given Sirikci increased management authority to allow him to implement fully the BTC turnkey contract, including the authority to make financial decisions up to USD 10 million in value, organizational changes, and certain contracting decisions.

3. (C) As BTC Co had requested, Minister Guler responded to the material breach letter with a formal letter, dated May 7, that outlines the above changes. Guler's letter also addresses several other outstanding issues not included in the material breach letter, including resolution of a dispute over how the fuel tax will be applied to BTC Co and an indication that the current "investigations" of the project will be terminated (reftel). The letter also advises that the Ministry will implement an action plan to ensure timely gas supply to BTC's Pump Station I.

4. (C) Townshend delivered a written response to Minister Guler's May 7 letter the same day, stating that, "In consideration of the actions taken by the Turkish Government, we are pleased to advise we now consider the right conditions are in place for BOTAS to effectively manage the works to completion and as of today are lifting our claim of material breach."

5. (C) Minister Guler and Townshend held a joint press conference May 7, where Townshend emphasized BP's continued support for the Caspian region and the BTC project. He said he was very pleased with the progress made on BOTAS management issues, and was convinced the project would be completed on time. Townshend also praised BOTAS, saying the company should be proud of its success to bringing BTC to its current development stage. (We have emailed the text of the press release to E/CBED and EUR/SE).

6. (C) Comment: All in all, a very good day for BTC. The GOT has responded to BTC Co's immediate "material breach" concerns and more. The BOTAS management team is close to Minister Guler and has sufficient authority to complete the project. There will be more challenges, and we will need to monitor how the team manages in practice. But, for now at least, it seems the AK government has got it right on BTC. End comment.
PEARSON